



GERALD A. SILVA
City Auditor

CITY OF SAN JOSÉ, CALIFORNIA

800 N. First Street • San José, California 95112 • Tel: (408) 277-6601

December 15, 2000

Ms. Mary Kate Franci,
Executive Director
Santa Clara County Cities Association
505 West Olive Avenue, Suite 630
Sunnyvale, California 94086

Dear Ms. Franci:

Transmitted herewith is a copy of our audit of the general fund balance sheets of the Santa Clara County Cities Association (SCCCA) as of June 30, 1999 and June 30, 2000 and the related statements of revenues, expenditures, and changes in fund balances, and statement of cash flows for the years ended June 30, 1999 and June 30, 2000. These financial statements are the responsibility of the SCCCA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

I will present this report to the SCCCA Board on March 8, 2001.

Sincerely,

Gerald A. Silva
City Auditor

GS:bh

Encl.

cc: Ralph Faravelli
Henry Manayan
Kris Casto
Patricia Vorreiter
Pat Dando

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Santa Clara County Cities Association

We have audited the accompanying balance sheets of the *Santa Clara County Cities Association* (SCCCA) as of June 30, 1999 and June 30, 2000, and the related statements of revenues and expenditures, and changes in reserves, fund balances, and cash flows for the years ended June 30, 1999 and June 30, 2000. These financial statements are the responsibility of the SCCCA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SCCCA as of June 30, 1999 and June 30, 2000, and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

A handwritten signature in black ink, reading "Gerald A. Silva".

Gerald A. Silva, CPA
City Auditor

December 15, 2000

SANTA CLARA COUNTY CITIES ASSOCIATION**Balance Sheet****June 30, 1999 and 2000**

	<u>1999</u>	<u>2000</u>
Assets		
Cash	\$17,165	\$13,677
Interest Receivable	1,049	1,228
Accounts Receivable	--	30
Prepaid Rent	620	620
Other Current Assets - Investment in LAIF	<u>76,735</u>	<u>74,432</u>
Total Current Assets	95,569	89,987
 Fixed Assets		
Office Equipment	8,457	10,590
Less Accumulated Depreciation	<u><7,596></u>	<u><8,571></u>
Total Fixed Assets	<u>861</u>	<u>2,019</u>
 TOTAL ASSETS	<u>\$96,430</u>	<u>\$92,006</u>
 Liabilities, Reserves, and Fund Balance		
Accrued liability	<u>\$1,915</u>	<u>\$ 0</u>
Reserves (see Note 8)		
Reserved for Operations	45,000	45,000
Reserved for Equipment Replacement	10,000	7,867
Reserved for Technology Advances	5,000	5,000
Reserved for Education/Speakers	<u>13,500</u>	<u>13,050</u>
Total Reserves	<u>73,500</u>	<u>70,917</u>
Fund Balance - Unrestricted	<u>21,015</u>	<u>21,089</u>
Total Liabilities, Reserves, and Fund Balance	<u>\$96,430</u>	<u>\$92,006</u>

See accompanying notes to the financial statements.

SANTA CLARA COUNTY CITIES ASSOCIATION
Statement Of Revenues And Expenditures
For The Years Ended June 30, 1999 and 2000

	<u>1999</u>	<u>2000</u>
Revenues		
Contributions from		
Santa Clara County cities	\$40,005	\$40,005
Interest income	4,767	4,876
Other sources	<u>3,975</u>	<u>4,140</u>
Total revenues	<u>48,747</u>	<u>49,021</u>
Expenditures		
Office staff	22,648	24,215
Other professional services	1,650	1,450
Payroll taxes	1,910	2,076
Payroll processing expenses	597	633
Conference/Director's expenses	1,472	850
Depreciation	708	975
Directory production	927	1,316
Dues and subscriptions	59	59
Equipment leasing	1,552	1,735
General membership dinner	5,589	6,256
Hospitality	818	818
Internet services	247	203
Insurance	266	350
Maintenance and repairs	135	474
Office supplies	994	730
Postage	1,170	840
Printing	1,181	1,199
Recognition	103	531
Rent	3,720	3,810
Telephone	674	607
Travel	<u>568</u>	<u>537</u>
Total Expenditures	<u>46,988</u>	<u>49,664</u>
Operating Income <Loss>	<u>1,759</u>	<u><643></u>
Other Revenues/<Expenditures>		
Anti-Graffiti Program Donations	15,015	7,820
Anti-Graffiti Program <Expenditures>	<u><1,738></u>	<u><9,236></u>
Net Other Revenues/<Expenditures>	<u>13,277</u>	<u><1,416></u>
Net Revenues/<Expenditures>	<u>\$15,036</u>	<u><\$2,059></u>

See accompanying notes to the financial statements.

SANTA CLARA COUNTY CITIES ASSOCIATION
Statement Of Cash Flows
For The Years Ended June 30, 1999 and 2000

	<u>1999</u>	<u>2000</u>
Cash flows from operating activities		
Excess of revenues over (expenditures)	\$15,036	(\$2,059)
Adjustments to reconcile operating income (loss) to net cash provided (used in) operating activities		
Depreciation	708	975
Changes in:		
Interest Receivable	252	(180)
Accounts Receivable	112	(30)
Investment in LAIF	(18)	2,303
Accrued Liability	<u>(45)</u>	<u>(1,914)</u>
Net cash provided by (used in) operating activities	16,045	(905)
Cash flows from financing activities		
Reduction of the education reserve - Santa Clara County Domestic Violence Conference	(3,500)	
Reduction of the equipment replacement reserve - purchase of computer		(2,133)
Reduction of the education reserve - purchase of banners	<u> </u>	<u>(450)</u>
Net increase (decrease) in cash	12,545	(3,488)
CASH – BEGINNING OF PERIOD	<u>4,620</u>	<u>17,165</u>
CASH – END OF PERIOD	<u><u>\$17,165</u></u>	<u><u>\$13,677</u></u>

See accompanying notes to the financial statements.

SANTA CLARA COUNTY CITIES ASSOCIATION
Statement Of Changes In Reserves And Fund Balance
For the Years ended June 30, 1999 and 2000

	<u>Reserve for Operations</u>	<u>Reserve for Equipment Replacement</u>	<u>Reserve for Technology Advancement</u>	<u>Reserve for Education/ Speakers</u>	<u>Fund Balance</u>	<u>Total Reserves and Fund Balance</u>
Balances as of July 1, 1998	\$45,000	\$10,000	\$5,000	\$17,000	\$5,979	\$82,979
Expenditures for the Santa Clara County Domestic Violence Conference				<3,500>		<3,500>
Net Revenues over Expenditures	_____	_____	_____	_____	<u>15,036</u>	<u>15,036</u>
Balances as of June 30, 1999	45,000	10,000	5,000	13,500	21,015	94,515
Purchase of computer equipment		<2,133>			<2,133>	
Purchase of Santa Clara County Association banners				<450>		<450>
Net Expenditures over Revenues	_____	_____	_____	_____	<u><2,059></u>	<u><2,059></u>
Balances as of June 30, 2000	<u>\$45,000</u>	<u>\$7,867</u>	<u>\$5,000</u>	<u>\$13,050</u>	<u>\$21,089</u>	<u>\$92,006</u>

See accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. History and Organization

The Santa Clara County Cities Association (SCCCA), an unincorporated association, was established in February 1990 by the cities of Santa Clara County, California. SCCCA is a joint powers agreement among the member cities and is not a public entity separate from the parties to the agreement. The purposes and functions of SCCCA are (a) to review, study, develop consensus positions, and recommend on issues of interest to Santa Clara County cities; (b) to develop a common agenda for Santa Clara County cities; (c) to serve as a unified voice for Santa Clara County cities in relationship to other agencies, organizations, and levels of government, including the Peninsula Division of the League of California Cities; (d) to serve as the City Selection Committee pursuant to Government Code, Section 50270 et seq., and make appointments to regional and local bodies as provided by law; (e) to assist in development of statewide legislative policy through the structure of the League of California Cities; (f) to serve as a source of education, information and networking for officials from all cities in Santa Clara County; and (g) to provide a forum for non-city individuals, groups and organizations, and the private sector to address items of interest to Santa Clara County cities.

2. Summary of Significant Accounting Policies

- a. The SCCCA's financial statements are prepared using the modified accrual method of accounting. Expenditures are recorded when the liability is incurred. Revenues are recognized when they become both measurable and available.
- b. Revenues for the operation of SCCCA are primarily provided by the contributions of the member cities.

3. Related Organizations

SCCCA was formed through a joint powers agreement among the cities of Santa Clara County and was not intended to be a separate public entity. Based on the agreement, SCCCA does not have the authority to incur any liability binding upon its members or levy any assessment against its members other than the normal dues established pursuant to the agreement.

4. Lease Commitments

SCCCA occupies office space at the Sunnyvale Office Center at 505 West Olive Avenue, Suite 630, Sunnyvale, California, and pays monthly rent under a month-to-month rental agreement. Beginning June 1, 2000, the SCCCA office

rent increased from \$310 per month to \$400 per month. In December 1990, SCCCA paid \$620 for security deposit and prepaid rental.

5. **Fixed Assets**

Purchases of furniture and equipment exceeding \$500 are recorded as Fixed Assets. SCCCA uses the straight line method of depreciation.

6. **Change In The General Administrators**

The SCCCA was created by the cities in Santa Clara County in 1990 to provide a forum for cities to discuss issues of common interest. All fifteen Santa Clara County cities agreed to be dues paying members of the Association with representatives who meet once a month. The original Agreements provided for the Treasurer of the Association to be the General Administrator, providing accounting and other administrative functions. Since inception, the City of San Jose's Finance Department has been the General Administrator. However, on June 6, 1995, the San Jose City Council approved a revision to the Santa Clara County Cities Association's Agreements designating the Cities Association as the General Administrator. Thus, after June 30, 1995, the Cities Association became the General Administrator for its funds.

7. **Investment In The Local Agency Investment Fund**

On October 12, 1995, the Board of Directors of the SCCCA passed and adopted a resolution authorizing the investment of monies in the Local Agency Investment Fund in the State Treasury. The SCCCA made an initial investment of \$90,000 in the Local Agency Investment Fund (LAIF) in October, 1995. SCCCA investments in LAIF are reported at fair value.

8. **Fund Balance Reserves**

In September 1997, the SCCCA adopted a policy to set up certain reserves insofar as income and expenses permit. The SCCCA assigned the following reserve amounts to be effective June 30, 1998:

- A. An operating reserve equal to one year's projected expenses (\$45,000);
- B. A reserve for equipment replacement equal to the replacement value of existing equipment (\$10,000). During the year ending June 30, 2000, SCCCA transferred \$2,133 of this reserve balance to Unrestricted Fund Balance to purchase a computer.
- C. A reserve to purchase new equipment to keep abreast of technology advances (\$5,000); and

D. A reserve fund to take advantage of available speakers for educational forums (\$17,000). For the year ending June 30, 1999, SCCCA used \$3,500 of this reserve balance for the Santa Clara County Domestic Violence Conference. For the year ending June 30, 2000, SCCCA used \$450 of this reserve balance to purchase banners.



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December 15, 2000

Board of Directors

Santa Clara County Cities Association
505 West Olive Avenue, Suite 630
Sunnyvale, California

Ladies and Gentlemen:

We have audited the financial statements of the Santa Clara County Cities Association (SCCCA) for the years ended June 30, 1999 and 2000, and have issued our report thereon dated December 15, 2000. In planning and performing our audit of SCCCA's financial statements, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. We have not considered the internal control structure since the date of our report.

During our audit, we noted a certain matter involving an internal control procedure that is presented for your consideration. These comments and recommendation, which have been discussed with SCCCA's executive director, are intended to improve the internal control structure or result in other operational efficiencies and are presented in Exhibit A.

Our audit procedures are designed primarily to enable us to form an opinion on the SCCCA's financial statements and therefore may not bring to light all weaknesses in policies or procedures that may exist.

This letter is intended solely for the information and use of the Board of Directors and SCCCA management.

Gerald A. Silva, CPA
City Auditor

SANTA CLARA COUNTY CITIES ASSOCIATION
EXHIBIT A
Comments and Recommendation

Cash Disbursements

The SCCCA requires two signatures to pay checks that are \$500 or more. During the audit period, the new Executive Director of the SCCCA opted to have a direct deposit for her payroll check. SCCCA has not implemented any controls to account for this change. The Executive director also maintains and reconciles the bank account; however, no other officer reviews or approves the bank reconciliation.

Recommendation #1:

We recommend the SCCCA implement additional controls for (1) approving the direct deposit amount and (2) reviewing the monthly bank account reconciliation.